

Optimistic outlook for Pavilion-REIT

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PETALING JAYA: Pavilion Real Estate Investment Trust  (Pavilion-REIT) is poised for steady earnings growth in its financial year ending Dec 31, 2026 (FY26), supported by resilient domestic consumption, the Visit Malaysia 2026 campaign and full-year contributions from its newly injected hotel assets.

Analysts remain constructive on the REIT's outlook, citing improving rental reversions, stronger tourist arrivals following the mutual visa exemption between Malaysia and China, and asset-enhancement initiatives (AEIs).

The government's reduction of the service tax rate on rental and leasing services from 8% to 6%, effective Jan 1, 2026, is also expected to support earnings.

In a note, Hong Leong Investment Bank (HLIB) Research expected Pavilion Kuala Lumpur and Pavilion Elite – which together contributed about 66% of FY25 revenue – to continue enjoying “robust” footfall into FY26.

“Earnings visibility will be further strengthened by the full-year contribution from the injection of Banyan Tree Kuala Lumpur and Pavilion Hotel Kuala Lumpur, which are expected to provide a combined fixed RM33.5mil in base rental, or 3.4% of our FY26 forecast revenue,” it said.

Coupled with mid-single-digit rental reversions guidance, HLIB Research expects Pavilion-REIT to deliver improving earnings performance in FY26.

As of end-FY25, the REIT’s retail occupancy improved to 97%, whereas Pavilion Tower’s office occupancy dipped slightly to 78%. Similarly, Maybank Investment Bank Research (Maybank IB) said steady growth in FY26 would be supported by resilient domestic consumption and Visit Malaysia 2026.

It noted that Pavilion-REIT’s FY25 results came broadly in line at 98% and 100% of its and consensus estimates, respectively.

“The FY25 distribution per unit reached a record 10 sen, marking the first time it crossed the 10-sen level, supported by resilient retail performance and the first year contribution from its newly acquired hotel assets,” it said.

Maybank IB highlighted major near-term catalysts, including AEIs at Pavilion KL to reconfigure space for new international tenants, maturing contribution from Pavilion Bukit Jalil and full-year stabilisation of the hotel segment.

CIMB Securities Research, meanwhile, expected Pavillion-REIT’s FY26 earnings to benefit from better rental reversions, Visit Malaysia 2026, full-year hotel contributions, lower borrowing costs, AEI upside at Pavilion KL and reduced losses at Easyhome Mall.

“The FY26 earnings should benefit from the Visit Malaysia 2026 campaign, which is expected to lift consumer spending, alongside government cash assistance and civil servant salary hikes,” it said.

It added that earnings would also benefit from narrowing losses at Easyhome Mall (formerly Damen Mall) following its handover to Easyhome International (M) Sdn Bhd on Oct 1, 2025, as the new master tenant of the property.

“Under the master-lease arrangement – where all operating costs are borne by the tenant – Pavilion-REIT gains stronger income visibility and reduced earnings risk.” On borrowing cost, the research firm said Pavilion-REIT’s average borrowing cost stood at 4.6% in FY25, with 76.5% of borrowings on floating rates.

CIMB Research maintained its “buy” rating with a higher target price (TP) of RM2.09 from RM2.04, reflecting lower cost of debt.

HLIB Research also maintained its “buy” rating with an unchanged TP of RM2.02, based on a target yield of 5.2%, anchored to the five-year historical average spread between Pavilion-REIT and the 10-year Malaysian Government Securities or MGS.

“Pavilion-REIT’s prospects remain favourable, supported by a constructive tourism outlook that is expected to drive higher footfall and spending at its flagship assets including Pavilion KL and Pavilion Elite, reinforcing its growth trajectory,” it said.

Maybank IB made minor downward earnings adjustments of 1.5% to FY26/27 following post-FY25 model refinements, but maintained its “buy” call with an unchanged TP of RM2.05, underpinned by stronger portfolio diversification post-hotel acquisitions.

It added that Pavilion-REIT’s balance sheet remained “manageable” at about 40% gearing. “We continue to like Pavilion-REIT for its prime retail positioning, steady rental growth and growing income diversification via hospitality assets.”